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BEFORE THE ARIZONA CORPORATION COMMISSION

MIKE GLEASON
Chairman
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
KRISTIN K. MAYES
Commissioner
GARY PIERCE
Commissioner

Arizona Corporation Commission
DOCKETED

APR 29 2008

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IN THE MATTER OF THE APPLICATION
OF UNS ELECTRIC, INC. FOR
COMMISSION APPROVAL OF A
PROPOSED PURCHASED POWER
AGREEMENT BETWEEN UNS ELECTRIC
AND UNISOURCE ENERGY
DEVELOPMENT COMPANY

DOCKET NOS.E-04204A-08-0124
DOCKET NO. E-04230A-08-0124

DECISION NO. 70322

ORDER

Open Meeting
April 24, 2008
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Electric, Inc. ("UNSE") is a public service corporation certificated to provide electric service to customers in Mohave and Santa Cruz Counties in the State of Arizona.

2. UniSource Energy Development Company ("UED") is an Arizona corporation and a subsidiary of UniSource Energy Corporation. UED is developing Black Mountain Generating Station ("BMGS"), a 90 MW simple cycle gas-fired generating station consisting of two 45 MW gas turbines and associated equipment and accessories.

3. On March 3, 2008, UNSE filed with the Arizona Corporation Commission ("Commission") a request for approvals of: 1) a proposed Purchased Power Agreement ("PPA") between UNSE and UED, the associated developer of the Black Mountain Generating Station ("BMGS"); 2) an assignment of the BMGS Gas Transportation Agreement between UNS Gas, Inc. ("UNSG") and UED to UNSG and UNSE; and, 3) an assignment of the BMGS gas supply

1 agreement entitled Interruptible Natural Gas Sales and Agency Agreement between UNSG and
2 UED to UNSG and UNSE.

3 4. UED is developing BMGS, a 90 MW simple cycle gas-fired generating station
4 consisting of two 45 MW gas turbines and associated equipment and accessories. UED's intention
5 is to transfer the generating station to UNSE as part of UNSE's resource plan to serve its load after
6 the pending June 1, 2008 expiration of UNSE's (431 MW in 2007) power supply agreement with
7 Pinnacle West Marketing and Trading.

8 5. BMGS' 90 MW capacity is a critical component of the UNSE resource plan for
9 meeting its power needs effective June 1, 2008.

10 6. According to UNSE, it was necessary to file the proposed PPA because the
11 Commission's ruling in its pending electric rate case (Docket No. E-04204A-06-0783) is unknown
12 at this time; and as such, UNSE requires a backup plan for implementing its resource plan that
13 includes the Black Mountain Generating Station. UNSE is seeking extraordinary rate treatment of
14 BMGS as part of the rate proceeding.

15 7. On February 27, 2008, the Commission issued Decision No. 70186 in which it
16 approved revised gas transportation and supply agreements between UNSG and UED. The
17 revisions, in part, clearly state that "... any assignment to UNS Electric or other entity will be
18 subject to Commission review and approval, and may result in changes to the Agreements' terms
19 and conditions as deemed necessary by the Commission ..." (page 6, lines 21 - 24).

20 8. In accordance with the Federal Energy Regulatory Commission ("FERC")
21 requirements, UNSE initiated two competitive Requests for Proposals ("RFP") for tolling
22 agreements capable of delivery of electric power into its service territory. A tolling agreement
23 provides for the buyer to supply the natural gas to the seller (generation operator). As a result of
24 the RFP process, UNSE and UED entered into the proposed PPA, the key points of which are
25 summarized in the table below:

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Product	Fully Dispatchable Tolling Agreement
Term	5 years, June 1, 2008 – May 31, 2013
Contract Capacity	Entire BMGS Output, Estimate 90 MW
Delivery Point	BMGS Switchyard
Gas Supply	Provided by Buyer (Through Assigned BMGS Gas Agreements)
Demand Charge	REDACTED

9. The proposed PPA is an integral part of UNSE'S resource plan because it requires the assignment of the revised gas transportation and supply agreements between UNSG and UED to UNSG and UNSE to allow UNSE to purchase and receive gas at the BMGS.

10. UED has obtained market-based rate authority from FERC. Ordinarily, a PPA would not require FERC approval when the seller has market-based rate authority. However, according to UNSE, the proposed PPA with UNSE does require FERC approval because it involves an affiliate.

Staff's Findings and Recommendations

11. Staff has recommended that the Commission neither approve nor disapprove the PPA. As the PPA is a wholesale transaction involving investor-owned utilities, it falls under FERC's jurisdiction.

12. Staff has made a recommendation regarding the recovery of costs associated with the proposed PPA. As UNSE's Purchased Power and Fuel Adjustment Clause ("PPFAC") is currently structured, demand charges cannot be recovered through the PPFAC. In the rate case proceeding, Staff has recommended a restructured PPFAC that would allow demand charges. Although the outcome of the rate case proceeding is unknown at this time, Staff recommends that UNSE be allowed to defer the demand costs associated with the proposed PPA until such time as the Commission addresses these costs in the current rate case proceeding, either through restructuring the PPFAC to allow demand charges or through other ratemaking action.

13. Staff has recommended approval of the assignment of the Gas Transportation and Interruptible Natural Gas Sales and Agency Agreements ("Agreements") between UNSG and UED to UNSG and UNSE. Staff supports its recommendation by the fact that the Agreements

now contain Commission approved language addressing the assignment of the Agreements to any successor companies.

CONCLUSIONS OF LAW

1. UNS Electric is a public service corporation within the meaning of Article XV, Section 2 of the Arizona Constitution.

2. The Commission has jurisdiction over UNS Electric and the subject matter of the Application.

3. The Commission having reviewed the requested approval and Staff's Memorandum dated March 28, 2008, concludes that it is in the public interest to neither approve nor disapprove the proposed Purchased Power Agreement as discussed herein.

4. The Commission having reviewed the requested approvals and Staff's Memorandum dated March 28, 2008, concludes that it is in the public interest to approve the assignment of the Gas Transportation and Interruptible Natural Gas Sales and Agency Agreements as discussed herein.

ORDER

IT IS THEREFORE ORDERED that the proposed Purchased Power Agreement between UNS Electric, Inc. and UniSource Energy Development Company as discussed herein is neither approved nor disapproved.

IT IS FURTHER ORDERED that UNS Electric, Inc. is allowed to defer the demand costs associated with the Purchased Power Agreement between UNS Electric, Inc. and UniSource Energy Development Company until such time as the Commission addresses these costs in the current rate case proceeding.

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IT IS FURTHER ORDERED that the assignment of the Gas Transportation and Interruptible Natural Gas Sales and Agency Agreements are approved as discussed herein.

IT IS FURTHER ORDERED that this decision shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

Laurel L. O'Leary
CHAIRMAN

COMMISSIONER

Jeffrey D. Hatch-Miller
COMMISSIONER

[Signature]
COMMISSIONER

Gary L. Rein
COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 29th day of April, 2008.

[Signature]
Brian C. McNeil
Executive Director

DISSENT: *[Signature]*

DISSENT: _____

EGJ:WHM:lhmk\KT

1 SERVICE LIST FOR: UNS Electric, Inc. and UniSource Energy Development Company
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